

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF FOUNTAIN	County MASON
Audit Date 6/30/05	Opinion Date 7/22/05	Date Accountant Report Submitted to State: 9/23/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY, CPAS			
Street Address 60 HARROW LANE	City SAGINAW	State MI	ZIP 48638
Accountant Signature <i>Kenneth A. Berthiaume</i>		Date <i>9-23-05</i>	

VILLAGE OF FOUNTAIN

Mason County, Michigan

FINANCIAL STATEMENTS

June 30, 2005

VILLAGE OF FOUNTAIN

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**BERTHIAUME
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INDEPENDENT AUDITORS' REPORT

To the Members of Village Council
Village of Fountain, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Fountain as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Fountain's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Fountain, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Fountain's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 11, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of July 1, 2004.

Berthiaume & Co.

July 22, 2005

BASIC FINANCIAL STATEMENTS

VILLAGE OF FOUNTAIN

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 241,427
Receivables	11,558
Capital assets:	
Nondepreciable capital assets	900
Depreciable capital assets, net	<u>148,734</u>
 Total assets	 <u>402,619</u>
 Liabilities:	
Accounts payable and accrued expenses	<u>802</u>
 Total liabilities	 <u>802</u>
 Net assets:	
Invested in capital assets	149,634
Restricted for:	
Streets	189,322
Unrestricted	<u>62,861</u>
 Total net assets	 <u>\$ 401,817</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
<i>Governmental activities:</i>				
General government	\$ 13,986	\$ 10	\$ -	\$ (13,976)
Public safety	4,654	-	-	(4,654)
Public works	18,169	-	34,697	16,528
Recreation and culture	<u>2,844</u>	<u>-</u>	<u>-</u>	<u>(2,844)</u>
 Total governmental activities	 <u>39,653</u>	 <u>10</u>	 <u>34,697</u>	 <u>(4,946)</u>
 General revenues:				
Taxes:				
Property taxes, levied for general purpose				\$ 7,587
Franchise taxes				549
Grants and contributions not restricted to specific programs				14,122
Unrestricted investment earnings				3,208
Miscellaneous				<u>6,884</u>
 Total general revenues				 <u>32,350</u>
 Change in net assets				 27,404
 Net assets, beginning of year				 <u>748,826</u>
 Net assets, end of year				 <u>\$ 776,230</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 52,475	\$ 96,310	\$ 87,710	\$ 236,495
Accounts receivable	1,601	-	-	1,601
Due from other governmental units	<u>4,555</u>	<u>4,214</u>	<u>1,188</u>	<u>9,957</u>
 Total assets	<u>\$ 58,631</u>	<u>\$ 100,524</u>	<u>\$ 88,898</u>	<u>\$ 248,053</u>
 Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	<u>\$ 702</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 802</u>
 Total liabilities	<u>702</u>	<u>100</u>	<u>-</u>	<u>802</u>
 Fund balances:				
Unreserved:				
General fund	57,929	-	-	57,929
Special revenue funds	<u>-</u>	<u>100,424</u>	<u>88,898</u>	<u>189,322</u>
 Total fund balances	<u>57,929</u>	<u>100,424</u>	<u>88,898</u>	<u>247,251</u>
 Total liabilities and fund balances	<u>\$ 58,631</u>	<u>\$ 100,524</u>	<u>\$ 88,898</u>	<u>\$ 248,053</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2005

Total fund balances for governmental funds \$ 247,251

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	209,873	
Less accumulated depreciation	<u>(63,661)</u>	146,212

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets. 8,354

Net assets of governmental activities \$ 401,817

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 7,587	\$ -	\$ -	\$ 7,587
Licenses and permits	559	-	-	559
State grants	14,122	27,158	7,539	48,819
Interest and rents	821	1,218	1,122	3,161
Other revenue	<u>6,884</u>	<u>-</u>	<u>-</u>	<u>6,884</u>
 Total revenues	<u>29,973</u>	<u>28,376</u>	<u>8,661</u>	<u>67,010</u>
 Expenditures:				
<i>Current:</i>				
General government	9,715	-	-	9,715
Public safety	4,807	-	-	4,807
Public works	9,906	6,213	2,660	18,779
Recreation and culture	<u>2,938</u>	<u>-</u>	<u>-</u>	<u>2,938</u>
 Total expenditures	<u>27,366</u>	<u>6,213</u>	<u>2,660</u>	<u>36,239</u>
 Excess (deficiency) of revenues over expenditures	<u>2,607</u>	<u>22,163</u>	<u>6,001</u>	<u>30,771</u>
 Other financing sources (uses):				
Transfers in	-	-	6,909	6,909
Transfers out	<u>-</u>	<u>(6,909)</u>	<u>-</u>	<u>(6,909)</u>
 Total other financing sources (uses)	<u>-</u>	<u>(6,909)</u>	<u>6,909</u>	<u>-</u>
 Net change in fund balances	2,607	15,254	12,910	30,771
 Fund balances, beginning of year	<u>55,322</u>	<u>85,170</u>	<u>75,988</u>	<u>216,480</u>
 Fund balances, end of year	<u>\$ 57,929</u>	<u>\$ 100,424</u>	<u>\$ 88,898</u>	<u>\$ 247,251</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ 30,771
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	-	
Less depreciation expense	<u>(4,588)</u>	(4,588)

The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>1,221</u>
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Change in net assets of governmental activities	<u><u>\$ 27,404</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

PROPRIETARY FUNDS **STATEMENT OF NET ASSETS**

June 30, 2005

	Governmental Activities Internal Service Fund - Motor Pool Fund
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 4,932
Total current assets	4,932
<i>Noncurrent assets:</i>	
Capital assets:	
Depreciable capital assets, net	3,422
Total noncurrent assets	3,422
Total assets	8,354
Net assets:	
Invested in capital assets	3,422
Unrestricted	4,932
Total net assets	\$ 8,354

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2005

	Governmental Activities Internal Service Fund - Motor Pool Fund
Operating revenues:	
Equipment rental	\$ 2,791
Total operating revenues	2,791
Operating expenses:	
Repairs and maintenance	1,250
Depreciation	367
Total operating expenses	1,617
Operating income	1,174
Non-operating revenues:	
Interest income	47
Total non-operating revenues	47
Net income	1,221
Net assets, beginning of year, as restated	7,133
Net assets, end of year	\$ 8,354

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FOUNTAIN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	Governmental Activities Internal Service Fund - Motor Pool Fund
Cash flows from operating activities:	
Cash received from interfund services	\$ 2,791
Cash payments to suppliers for goods and services	<u>(1,250)</u>
Net cash provided by operating activities	<u>1,541</u>
Cash flows from investing activities:	
Interest received	<u>47</u>
Net cash provided by investing activities	<u>47</u>
Net increase in cash and cash equivalents	<u>1,588</u>
Cash and cash equivalents, beginning of year	<u>3,344</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,932</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,174
Adjustments:	
Depreciation	<u>367</u>
Net cash provided by operating activities	<u><u>\$ 1,541</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Fountain conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units, if any. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units included in the Village's reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These statements distinguish between activities that are governmental and those that are business-type activities. There are no business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements, the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The proprietary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the maintenance and construction of the Village's major street system.

The **Local Street Fund** is used to account for the maintenance and construction of the Village's local street system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items – Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Machinery and equipment	15 years

Compensated Absences – There is no accumulation of earned but unused sick and vacation days. Therefore, no liability is recorded in the government-wide financial statements or the proprietary fund financial statements.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations, if any, are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Properties are assessed as of December 1. Taxes are levied on July 1.

The 2004 taxable valuation of the Village totaled \$2,273,723, on which ad valorem taxes levied consisted of 3.3038 mills for the Village’s operating purposes.

The delinquent real property taxes of the Village are purchased by Mason County.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget by fund for each year is submitted to the Village Council. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village did not incur expenditures that were materially in excess of the amounts budgeted.

NOTE 3: DEPOSITS AND INVESTMENTS

The Village's deposits at June 30, 2005 are included in the statement of net assets under the following categories:

	Governmental Activities
Cash and cash equivalents	\$ <u>241,427</u>

Deposits:

The breakdown in deposits for the Village is as follows:

	Governmental Activities
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ <u>241,427</u>

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

The deposits of the primary government were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$241,922, of which \$100,766 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the Village or its agent in the Village's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end, the Village had no investments.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4: CAPITAL ASSETS

Governmental activities capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 900	\$ -	\$ -	\$ 900
Depreciable capital assets:				
Buildings and improvements	201,594	-	-	201,594
Furniture and equipment	7,379	-	-	7,379
Machinery and equipment	5,500	-	-	5,500
Vehicles	-	-	-	-
Total depreciable capital assets	<u>214,473</u>	<u>-</u>	<u>-</u>	<u>214,473</u>
Accumulated depreciation	<u>(60,784)</u>	<u>(4,955)</u>	<u>-</u>	<u>(65,739)</u>
Depreciable capital assets, net	<u>153,689</u>	<u>(4,955)</u>	<u>-</u>	<u>148,734</u>
Governmental activities, capital assets, net	<u>\$ 154,589</u>	<u>\$ (4,955)</u>	<u>\$ -</u>	<u>\$ 149,634</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 4,687
Public safety	48
Public works	191
Recreation and culture	<u>29</u>
Total governmental activities	<u>\$ 4,955</u>

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the Village had no deferred revenue.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6: LONG-TERM LIABILITIES

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

At year end, the Village had no long-term liabilities.

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental activities in the aggregate are as follows:

	<u>Governmental Activities</u>
Receivables:	
Accounts	\$ 1,500
Intergovernmental	<u>9,957</u>
Total receivables	<u>\$ 11,457</u>
Accounts payable and accrued expenses:	
Accounts	<u>\$ 802</u>
Total accounts payable and accrued expenses	<u>\$ 802</u>

NOTE 8: INTERFUND BALANCES AND TRANSFERS

At year end, there were no interfund receivable and payable balances.

Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Major Street Fund	Local Street Fund	<u>\$ 6,909</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 9: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The Village does not offer a pension plan.

Post Employment Benefits:

The Village does not offer any post employment benefits.

Deferred Compensation Plan:

The Village does not offer a deferred compensation plan.

NOTE 11: PRIOR PERIOD ADJUSTMENTS

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Village is required to implement the new requirements for the year ended June 30, 2005. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net asset accounts:

VILLAGE OF FOUNTAIN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

Fund Financial Statements:

The beginning net assets of the internal service funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds, if any.

Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balances of general and special revenue funds as of 6/30/04	\$ 216,480
Add: Governmental capital assets, including general fixed assets as 6/30/04	209,873
Deduct: Accumulated depreciation as of 6/30/04 on above governmental capital assets	(59,073)
Add: Governmental internal service fund net assets as of 6/30/04, as restated	<u>7,133</u>
Governmental net assets, restated, as of 6/30/04	<u>\$ 374,413</u>

Correction of an Error:

In the year purchased, the capital asset in the internal service fund was not recorded as a capital asset. Capital assets purchased in proprietary funds are required to be recorded as capital assets and depreciated over their estimated useful lives. The effect on the beginning net assets of the internal service fund is as follows:

	<u>Internal Service Fund Motor Pool Fund</u>
Net assets, beginning of year, as previously stated	\$ 3,344
Prior period adjustment to recognize capital asset, net of depreciation	<u>3,789</u>
Net assets, beginning of year, as restated	<u>\$ 7,133</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF FOUNTAIN

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues:				
Property taxes	\$ 7,300	\$ 7,300	\$ 7,587	\$ 287
Licenses and permits	-	-	559	559
State grants	12,360	12,360	14,122	1,762
Interest and rents	1,000	1,000	821	(179)
Other revenue	5,420	5,420	6,884	1,464
Total revenues	26,080	26,080	29,973	3,893
Expenditures:				
<i>Current:</i>				
General government	9,800	9,708	9,715	7
Public safety	4,480	4,883	4,807	(76)
Public works	9,500	9,908	9,906	(2)
Recreation and culture	1,800	3,691	2,938	(753)
Other	500	-	-	-
Total expenditures	26,080	28,190	27,366	(824)
Excess (deficiency) of revenues over expenditures	-	(2,110)	2,607	4,717
Fund balance, beginning of year	55,322	55,322	55,322	-
Fund balance, end of year	\$ 55,322	\$ 53,212	\$ 57,929	\$ 4,717

VILLAGE OF FOUNTAIN

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under)
				Final Budget
Revenues:				
State grants	\$ 20,000	\$ 20,000	\$ 27,158	\$ 7,158
Interest and rents	800	800	1,218	418
Total revenues	20,800	20,800	28,376	7,576
Expenditures:				
<i>Current:</i>				
Public works	15,800	14,415	6,213	(8,202)
Total expenditures	15,800	14,415	6,213	(8,202)
Excess (deficiency) of revenues over expenditures	5,000	6,385	22,163	15,778
Other financing uses:				
Transfers out	5,000	6,385	6,909	524
Total other financing uses	5,000	6,385	6,909	524
Net change in fund balance	-	-	15,254	15,254
Fund balance, beginning of year	85,170	85,170	85,170	-
Fund balance, end of year	\$ 85,170	\$ 85,170	\$ 100,424	\$ 15,254

VILLAGE OF FOUNTAIN

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues:				
State grants	\$ 8,000	\$ 8,000	\$ 7,539	\$ (461)
Interest and rents	<u>1,000</u>	<u>1,000</u>	<u>1,122</u>	<u>122</u>
Total revenues	<u>9,000</u>	<u>9,000</u>	<u>8,661</u>	<u>(339)</u>
Expenditures:				
<i>Current:</i>				
Public works	<u>14,000</u>	<u>14,000</u>	<u>2,660</u>	<u>(11,340)</u>
Total expenditures	<u>14,000</u>	<u>14,000</u>	<u>2,660</u>	<u>(11,340)</u>
Excess (deficiency) of revenues over expenditures	<u>(5,000)</u>	<u>(5,000)</u>	<u>6,001</u>	<u>11,001</u>
Other financing sources:				
Transfers in	<u>5,000</u>	<u>5,000</u>	<u>6,909</u>	<u>1,909</u>
Total other financing sources	<u>5,000</u>	<u>5,000</u>	<u>6,909</u>	<u>1,909</u>
Net change in fund balance	-	-	12,910	12,910
Fund balance, beginning of year	<u>75,988</u>	<u>75,988</u>	<u>75,988</u>	<u>-</u>
Fund balance, end of year	<u>\$ 75,988</u>	<u>\$ 75,988</u>	<u>\$ 88,898</u>	<u>\$ 12,910</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF FOUNTAIN

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2005

Current Taxes:

Property taxes	\$ 7,587
	<u>7,587</u>

Licenses and permits:

Business licenses and permits	10
CATV franchise fees	<u>549</u>
	<u>559</u>

State Grants:

State revenue sharing - sales tax	<u>14,122</u>
	<u>14,122</u>

Interest and rents:

Interest	<u>821</u>
	<u>821</u>

Other Revenue:

Reimbursements	6,727
Other	<u>157</u>
	<u>6,884</u>

Total revenues	<u>\$ 29,973</u>
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VILLAGE OF FOUNTAIN

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2005

General Government:

Council	\$ 3,093
President	1,004
Clerk	1,862
Treasurer	1,679
Building and grounds	<u>2,077</u>
	<u>9,715</u>

Public Safety:

Liquor enforcement	480
Fire	<u>4,327</u>
	<u>4,807</u>

Public Works:

Sidewalks	4,481
Streets	1,585
Street lighting	<u>3,840</u>
	<u>9,906</u>

Recreation and culture:

Parks	<u>2,938</u>
	<u>2,938</u>

Total expenditures	<u>\$ 27,366</u>
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**BERTHIAUME
& COMPANY**

Certified Public Accountants



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MANAGEMENT LETTER

To the Members of Village Council
Village of Fountain, Michigan

We have completed our audit of the financial statements of the Village of Fountain for the year ended June 30, 2005, and have issued our report thereon dated July 22, 2005. As part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Village's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Village's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village of Fountain taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the Village management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

July 22, 2005